

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AGR-05 CEA-01 CIAE-00 COME-00 DODE-00

EB-07 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00

NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04 ITC-01

TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01 /092 W

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FM AMEMBASSY PRAGUE

TO SECSTATE WASHDC 0000

INFO AMEMBASSY ATHENS

AMEMBASSY BELGRADE

AMEMBASSY BERLIN

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY MOSCOW

AMEMBASSY SOFIA

AMEMBASSY WARSAW

AMEMBASSY VIENNA

USNATO BURSELS 899/900

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E.O. 11652: N/A

TAGS: EAGR, EALR, ETRD, CZ

SUBJECT: HUSAK SPEECH: LATEST AGRICULTURE SITUATION AND PRICE  
OUTLOOK

DEPT PASS AGRICULTURE FAS FOR G&F AND L&M; ATHENS FOR AGATT

REF: -. PRAGUE 2482(NOTAL), B. PRAGUE 2034(NOTAL)

1. SUMMARY: AUG 28 HUSAK SPEECH INDICATES 1976 GRAIN  
HARVEST OF 9.0 TO 9.3 MILLION TONS, ABOUT 1 MIL TONS BELOW  
PLAN TARGET. ANNUAL GRAIN IMPORTS MAY TOTAL UP TO 2.5 MIL  
TONS, INCLUDING OVER 1 MIL TONS FROM WEST. LIVESTOCK  
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SITUATION NOT ENCOURAGING, AND PROBLEMS EXIST FOR POTATIES

AND SUGAR BEETS. ECONOMIC PRESSURES FOR RAISING FOOD PRICES INCREASING, DESPITE GOC POLICY OF "STABLE" PRICES FOR STAPLES. THREAT OF PANIC BUYING FUELED BY HIGH LEVEL OF PRIVATE SAVINGS WORRIES REGIME. POLITICAL CONSIDERATIONS SEEM TO PRECLUDE DRASTIC, ACROSS-THE-BOARD PRICE HIKES, BUT HUSAK HAS GIVEN NOTICE THAT HIGHER PRODUCTIVITY (WHICH IS NOT EVIDENT) IS CONDITION FOR CONTINUED STABLE PRICES. END SUMMARY.

2. AGRICULTURAL SITUATION: GRAIN HARVEST JUST COMPLETED WAS COMPARATIVELY GOOD CONSIDERING ADVERSE CLIMATIC CONDITIONS, ACCORDING TO PRESIDENT HUSAK'S AUG 28 HARVEST CELEBRATION SPEECH IN NITRA (REF A). AVERAGE YIELD ON NATIONAL SCALE CAME TO 3.3 TO 3.4 TONS PER HECTARE. THIS LATEST REVELATION ON HARVEST IS MOST PRECISE SO FAR AMONG THE VAGUE AND OFTEN CRYPTIC REPORTS WE HAVE SEEN. IT IS ALSO MORE OPTIMISTIC THAN INDICATION GIVEN LATE JULY BY CENTRAL COMMITTEE SECRETARY BARYL THAT GRAIN PRODUCTION WOULD ONLY TOTAL ABOUT 8.2 MIL TONS. BECAUSE OF ITS HIGH SOURCE AND LATER DATE, WE GIVE GREATER CREDENCE TO HUSAK'S STATEMENT, WHICH INCIDENTLY CORROBORATES OUR EARLIER ESTIMATE (REF B). WHILE HUSAK DID NOT GIVE ACREAGE FIGURES FROM WHICH THIS YIELD WAS OBTAINED, WE NOTE FROM REPORT ON ECONOMIC DEVELOPMENT AND PLAN FULFILLMENT FOR FIRST HALF 1976 THAT CZECHOSLOVAKIA HAD 2,724,000 HECTARES SOWN TO CEREALS (GRAIN) AGAINST THE PLANNED 2,770,000 HECTARES. IF ALL PLANTED GRAIN WAS HARVESTED, HARVEST WOULD COME TO BETWEEN 9.0 AND 9.3 MIL TONS OR 1 MIL TONS BELOW PLAN TARGET FOR 1976, AND ABOUT IN LINE WITH LOWER FORECAST RANGE IN REF B. 1976 HARVEST, WHILE NOT A CATASTROPHE, STILL REPRESENTS A SUBSTANTIAL LOSS IN PRODUCTION FROM TARGET.

3. THE MORE THAN 1 MIL TONS SHORT-FALL IN GRAIN PRODUCTION SHOULD ADD AT LEAST THIS MUCH MORE TO THE CUSTOMARY 1.2 TO 1.4 MIL TONS OF GRAIN IMPORTS FOR AN ANNUAL TOTAL OF UP TO 2.5 MIL TONS. OF THIS TOTAL, USSR MAY SUPPLY .8 TO 1.0 MIL TONS AND HUNGARY .3 MIL TONS, LEAVING CZECHOSLOVAKIA TO SEEK THE REST (OVER 1 MIL TONS) IN THE WEST.

4. SITUATION IN LIVESTOCK SECTOR IS NOT ENCOURAGING EITHER, ACCORDING TO HUSAK AND PUBLISHED STATISTICS. PLANS FOR FURTHER EXPANSION IN LIVESTOCK SECTOR FOR 1976 HAVE ALREADY BEEN SCALED LIMITED OFFICIAL USE

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DOWN TO A MERE 1.5 PERCENT INCREASE EVEN BEFORE THE YEAR STARTED DUE TO RELATIVELY POOR GRAIN CROP OF 1975. AS 1976 PROGRESSED TO ITS HALF-WAY MARK, ANIMAL PRODUCTION FAILED TO REACH EVEN THE 1975 LEVEL. WHILE TOTAL CATTLE ON FARMS INCREASED, PURCHASES OF ANIMALS FOR MEAT, INCLUDING POULTRY, WERE 3.1 PERCENT LOWER THAN A YEAR EARLIER. NOW WITH ANOTHER BAD CROP IN 1976, FURTHER ADVERSE DEVELOPMENTS IN LIVESTOCK PRODUCTION CAN BE EXPECTED. WHILE MEAT SUPPLIES MAY INCREASE TOWARD THE END

OF 1976 BECAUSE OF FORCED SLAUGHTER (DUE TO SHORTAGE OF FODDER AND GRAIN), THIS COULD HAVE ADVERSE EFFECTS FOR MEAT SUPPLIES IN 1977 AND BEYOND. HOWEVER, IT IS DOUBTFUL THE GOVERNMENT WILL LET THIS HAPPEN BECAUSE IT IS DEEPLY COMMITTED TO MAINTAIN FOOD SUPPLIES AT LOW PRICES FOR ITS TRADITIONALLY WELL-FED PEOPLE. BECAUSE OF THIS, CZECHOSLOVAKIA WILL BE FORCED TO IMPORT GRAIN TO SUPPLEMENT FULLY GRAIN NEEDS FOR ITS LIVESTOCK IN 1977.

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5. HUSAK ALSO MENTIONED SHORTAGES OF MEAT, SAUSAGE AND POTATOES. ALTHOUGH HE DID NOT MENTION IT, SUGAR BEET CROP ALSO PRESENTS A PROBLEM. PLAN FOR 1976 CALLS FOR PRODUCTION OF UP TO 8 MIL TONS, BUT PROLONGED DROUGHT HAS VIRTUALLY ASSURED THAT THIS TARGET WILL NOT BE MET. THUS, HARD CURRENCY EARNINGS FROM SUGAR EXPORTS TO

WESTERN MARKETS AND PERHAPS DOMESTIC SUGAR CONSUMPTION MAY BE REDUCED IN 1977.

6. PRICE OUTLOOK: THESE ADVERSE DEVELOPMENTS IN CZECHOSLOVAK AGRICULTURE COUPLED WITH INDUSTRIAL PROBLEMS MAY FORESHADOW CHANGE IN GOVERNMENT'S PRICING POLICY FOR FARM PRODUCTS. HUSAK SEEMS TO HAVE WARNED THAT POLICY OF RETAIL PRICE STABILITY FOR FOOD AND PERHAPS OTHER PRODUCTS COULD END BY LIMITED OFFICIAL USE

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QUOTING (REF A) 15TH PARTY CONGRESS RESOLUTION THAT STABLE PRICES ARE CONDITIONED UPON ATTAINMENT OF 6TH FIVE YEAR PLAN OBJECTIVE OF IMPROVED WORKER PRODUCTIVITY IN ALL BRANCHES OF PRODUCTION.

7. CLEARLY, IN AGRICULTURAL AREA, FIRST YEAR OF CURRENT FYP WILL NOT SEE PLAN OBJECTIVES MET. PLAN FOR 1976 CALLED FOR PRODUCTION OF 10.2 MIL TONS OF GRAIN. INSTEAD, 1976 HARVEST WILL APPARENTLY TOTAL 1 MIL TONS LESS THAN THAT GOAL, INCREASING IMPORT BILL FOR GRAINS IN 1977. 1976 PLAN CALLS FOR MODEST INCREASE IN LIVESTOCK SECTOR (1.5 PERCENT), WHEREAS AT MID-YEAR THIS SECTOR SHOWS 3 TO 4 PERCENT DECLINE. BELOW TARGET SUGAR BEET PRODUCTION WILL BE ANOTHER DISAPPOINTMENT, AS APPARENTLY POTATO CROP WILL BE.

8. ON INDUSTRIAL FRONT, REGIME HAS NOT PUBLICLY INDICATED THAT 6TH FYP PRODUCTIVITY OBJECTIVES ARE NOT BEING MET. HOWEVER, CZECHOSLOVAKIA'S PERSISTENT TRADE DEFICIT WITH WEST INDICATES THAT SLOW GROWTH OF INDUSTRIAL PRODUCTIVITY REMAINS A VERY SERIOUS WORRY FOR GOC SINCE COMPETITIVENESS OF INDUSTRIAL EXPORTS CONTINUES TO ERODE. THUS, HUSAK COULD BE SOUNDING WARNING THAT THIS MAY RESULT IN HIGHER RETAIL PRICES DESPITE EARLIER PRICE STABILITY PLEDGE.

9. DUE TO THESE DEVELOPMENTS IN AGRICULTURAL SECTOR AND ELSEWHERE, CZECHOSLOVAKIA MAY NOT BE ABLE TO SHIELD ITS DOMESTIC ECONOMY FROM OVERSEAS INFLATIONARY FORCES BY MEANS OF CURRENTLY COSTLY SUBSIDIES MUCH LONGER. ON SOLELY ECONOMIC BASIS, PRESSURES FOR RETAIL PRICE RISES ARE INCREASING. ADDITIONAL HARD CURRENCY OUTLAYS FOR GRAIN AND PROSPECT OF REDUCED HARD CURRENCY EARNING FROM SUGAR EXPORTS ARE ONLY ONE ASPECT OF PROBLEMS FACING GOC ECONOMIC MANAGERS. AS HUSAK'S AUG 28 CRITICISM OF HOARDERS INDICATES, REGIME IS CONCERNED ABOUT POSSIBLE WAVE OF PANIC BUYING OF FOOD AND OTHER ITEMS WHICH COULD MATERIALIZE IF APPREHENSIVE CONSUMERS START TO FEAR FUTURE SHORTAGES. ENORMOUS STOCK OF PRIVATE SAVINGS WHICH CZECHOSLOVAKS HAVE ACCUMULATED, LARGELY FOR LACK OF DESIRABLE GOODS TO PURCHASE, COULD FUEL BUYING SPREE SPAWNING MORE ECONOMIC AND POLITICAL PROBLEMS FOR GOC. SELECTIVE PRICE INCREASES WOULD SOUP UP MORE OF THE SE

FUNDS BUT COULD ALSO KINDLE FEARS OF FUTURE  
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SHORTAGES AND THUS STIMULATE RATHER THAN DAMPEN PANIC BUYING.

10. DESPITE THESE SERIOUS ECONOMIC PRESSURES, IT SEEMS UNLIKELY THAT GOC WILL ACT SOON TO RAISE RETAIL PRICES. WHOLESALE PRICE REFORM (SUPPOSEDLY A CHANGE IN PRICE RELATIVITIES RATHER THAN AN OVERALL RISE) IS SCHEDULED FOR JANUARY 1977, BUT GOVERNMENT HAS PLEDGED TO CONTINUE STABLE RETAIL PRICES FOR STAPLES. WITH RESULTS OF ABORTIVE POLISH PRICE REFORM OF JUNE AND ITS OWN LACK OF POPULAR SUPPORT WELL IN MIND, REGIME IS LIKELY TO STALL AS LONG AS POSSIBLE ON RAISING FOOD PRICES. NEVERTHELESS, HUSAK HAS CLEARLY STATED THAT IMPROVED PRODUCTIVITY IS THE PRICE FOR STABLE PRICES. SINCE FORMER IS NOT IN EVIDENCE, GOC MAY EVENTUALLY BOW TO ECONOMIC PRESSURES AND RAISE PRICES ON A PIECE-MEAL, SELECTIVE BASIS IF IT FEELS POLITICAL RISKS SEEM TOLERABLE. DRASTIC, ACROSS-THE-BOARD PRICE HIKES FOR BASIC NECESSITIES STILL SEEM MOST UNLIKELY.

11. AS FOOTNOTE, WE MIGHT ADD VIEWS OF SOVIET AMBASSADOR MATSKEVICH, WHO PAID RETURN INTRODUCTORY CALTLN AMBASSADOR SEPT. 1. IN DISCUSSING HUSAK'S SPEECH, MATSKEVICH SAID THAT HE SERIOUSLY DOUBTS TOTAL CZECHOSLOVAK GRAIN IMPORTS WILL REACH 2.5 MIL TONS FOR YEAR, BUT HE DID CONCEDE THAT CZECHOSLOVAKS WILL HAVE TO IMPORT POTATOES AND TIGHTEN THEIR BELTS ON DOMESTIC SUGAR CONSUMPTION DUE TO SMALL BEET CROP. MATSKEVICH ALSO EXPRESSED "PERSONAL" VIEW THAT HUSAK SPEECH DOES NOT INDICATE RETAIL PRICE RISES ARE IMMINENT, AND SAID THAT HUSAK HAS RECENTLY GIVEN HIM IN PRIVATE MEETINGS GRAIN HARVEST ESTIMATES THAT ARE MORE OPTIMISTIC THAN WHAT HUSAK GAVE TO BREZHNEV AT THEIR JULY CRIMEAN MEETING.  
BYRNE

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## Message Attributes

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ATHENS  
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